JOHN SPELLMAN
Governor

LEROY M. HITTLE
Chairman

L. H. PEDERSEN
Member of the Board

KAZUO WATANABE
Member of the Board

STATE OF WASHINGTON

WASHINGTON STATE LIQUOR CONTROL BOARD

Olympia, Washington 98504

WINE
1981 Measure 586
("Parity")

FACT SHEET

HOUSE PROPOSED MEASURE 586
OR
Floor Amendment with the Same Thrust

1. At present, state liquor stores sell wine cheaper than grocery stores and still make a profit of $2,000,000 a year to help support state and local government. This measure could erase that profit.

2. This measure would force the state stores to boost the retail wine prices to at least 77 percent over delivered cost. (The current state markup is a uniform 45.9 percent.) Grocers would have no such floor on their markup. They would be free to use a lesser markup, enabling them to undercut state store prices.

3. Consumers would suffer. Right now an estimated 500,000 people--your constituents--choose to buy their wine at state stores because prices are lower. They would be forced to pay 87 cents more for an average bottle of wine, or shift their shopping to grocery stores. That amounts to a 25 percent increase in prices in state stores with no similar increase imposed on merchants in the private sector.

4. The private sector already has 82 percent of the wine business in Washington. This could give them the other 18 percent now handled by state stores.

5. If the state lost its wine business, it would mean a loss of $4,000,000 a year, or $8,000,000 during the next two-year fiscal period. That would be $4,000,000 less for the state general fund, and $4,000,000 less for city and county governments. (In addition to $2,000,000 a year in profits, the wine sales also pay for $2,000,000 in Board operating costs that would have to be continued even if the state losts its wine sales.)

6. This measure would give chain grocers a virtual monopoly on the state wine business. A study by Dr. Christopher F. Feise, Agriculture Economist, shows that more than 90 percent of the grocery business in Seattle is now controlled by seven grocery firms, including the big chain operators with out-of-state headquarters. They would seek a similar share of the wine business now handled through state stores. They could advertise and cut prices, two merchandising tools that would be denied to the state stores.

PLAINTIFF'S EXHIBIT
CASE NO. CV04-0360P
EXHIBIT NO. 060

WSA03091

7. With the state eliminated as a competitor, the merchants in the private sector could raise their prices to whatever the market would bear.

8. This measure has a genesis back in 1969 when the wine wholesalers and retailers pursuaded the legislature to pass the law permitting them to compete with the state liquor stores on out-of-state wines. These wine merchants promised greater selection and lower prices. Neither promise was fulfilled. Prices were not lowered. They were raised. Now, instead of lowering the prices to compete with the state stores, they want a law passed to force the state stores to boost their prices and price themselves out of the market.

9. When a similar forced markup bill was proposed in Montana, the press chided the wine merchants and asked the legislature to let the state stores compete and not lock their doors with a "grocer's protective tariff."

10. Proponents of this measure say the state can charge less for its wine because it carries out both the wholesaling and retailing functions, whereas in the private sector these functions are handled by different firms. If that were the only reason for the state's lower prices, then the cure would be to permit the private sector to carry out both the wholesale and retail functions, instead of forcing the liquor stores to boost their prices at the expense of the consumers.

11. The major reason for the higher prices in the private sector is the fact that they put their markup on top of the state tax at 75 cents a gallon. They make a profit on the state tax. The state stores do not. Based on a markup of 33 1/3 percent at the wholesale level and 33 1/3 percent at the retail level, as testified to at a House Revenue Committee hearing, the private sector's profit on the state tax amounts to 58 cents a gallon--25 cents for the wholesalers and 33 cents for the retailer. The state stores, on the other hand, make no profit on the state tax. They add the tax at the end of the computation, after they have marked up the wine 45.9 percent on the delivered cost.

12. Proponents of this measure say the Liquor Board does not provide an appropriate allocation of expenses between wine and other liquor products, thus enabling the state stores to sell for less. Price Waterhouse, Certified Public Accountants, reviewed the state Liquor Board's books and verified that a reasonable, proportionate share of state liquor system operational costs are charged against wine sales.

13. Despite their freedom to advertise, sell on Sunday, and exercise other merchandise techniques not available to state stores, the private sector with 93 percent of the retail outlets in the state, have been able to capture only 82 percent of the wine market. That's because the state has a more efficient system, enabling it to sell wine cheaper. The state, with only seven percent of the retail outlets, has 18 percent of the wine business. Now the wine merchants want that other 18 percent, but they don't want to lower their prices to get it. They are asking, instead, that the legislature force the state stores to boost their prices and price themselves out of the market.

14. This measure is a move to do indirectly what could not be done directly--force the state out of the wine business. The people of this state consistently have rejected initiatives to take the state out of the liquor business.

15. For the foregoing reasons this proposal should be rejected.

Jan McEvoy
Queens Amer
ESD 121
wants to talk
about it
576-6092

Are wine prices now too low?

By STEVE SHIRLEY
IR State Bureau

A spokesman for Montana's wine wholesalers asked legislators Thursday to raise the price of wine sold by the state.

Roger Tippy, lobbyist for the Montana Beer & Wine Wholesalers Association, said price increases are needed because private wine distributors have been hurt by what he called "predatory prices" put on wine sold in the state Liquor Control Division stores.

The wholesalers sell to grocery and drug stores who have been allowed to retail wine only since a wine initiative was passed by voters in 1979. At that time, backers of the initiative complained the initiative was needed because state wine and liquor prices were too high and the selection was too small.

Now, says the wholesalers, the prices are too low and the state is too competitive.

Tippy asked members of a legislative appropriations subcommittee to require the Liquor Control Division to retail its wine for 60 percent more than the wholesale cost until the division develops a "rational markup policy."

Tippy said that, as an example of the problem, the division purchased a container load of Riunite wine direct from the producer last fall and marked it up just 20 percent. Tippy said wholesalers don't think such a low markup could have covered all expenses related to getting the wine to the consumer.

Leon Messerly, director of the Liquor Control Division, said the state received tax money from the sale of the Riunite wine. He also said the low-priced wine was a good deal for consumers and attracted more of them into state liquor stores.

Rep. John Shontz, D-Sidney, told Tippy that he was asking for a "protective tariff" for wine wholesalers. "You could call it that," Tippy replied.

However, Tippy also argued that a wine price increase would benefit the state. He said it would bring in more money to state coffers, yet the state would sell just as much wine because consumers generally don't shop all over town for the best wine prices.

Tippy also told the committee that, in the past, the Liquor Control Division has used three different price markups on wine. They are:

— 82 percent for "pop" wines such as Annie Green Springs which costs less than $8 a case.

— 60 percent on wines wholesaling for between $8 and $18 a case.

— And 40 percent on wines costing over $18 a case, which includes most imports and a few of the best domestic wines.

Tippy said that, as wholesale wine prices increase, many wines are going over the $18 limit, so the state will lower the price of each bottle. As an example, he said an Almaden wine which sold for $3.75 a bottle when the winery price was $17.10 a case will sell for $3.45 a bottle when the state has to pay $18.10 a case.

Messerly said his agency uses the three-tier pricing system because it takes the same amount of manpower to put out the cheap wine as it does the expensive wine.

Independent Record
FRIDAY
February 6, 1981
Helena, Montana
Vol. 38 No. 67
Single copy 25c

WSA03095

TX060_005

He's going back to state stores

A couple years ago I made a mistake that I will, apparently, have to live with for the rest of my wine drinking days. I voted in favor of allowing the sale of wines in grocery stores. Only now do I realize what a terrible mistake that was and when I think of what a foolish thing I did it makes my Mogen David-thinned blood start to boil. Imagine, I actually believed the Montana Beer & Wine Wholesalers Association when they begged for my vote to allow wine in grocery stores on the premise that, in doing so, it would have the effect of lowering the retail wine prices, in grocery stores, below the prices of the state owned liquor stores.

I agree with the wholesalers when they say that consumers generally don't shop around for the best wine prices because I usually buy wine in the grocery stores while shopping for other staples, such as cheese and crackers. Not any more! After reading in The Montana Standard that the wholesalers are trying to force the state to raise its wine prices so that they, the wholesalers, can make more profits by raising the prices of their own wine, I have come to a decision. To do my own part in the fight against higher wine prices, ole Annie Green Springs breath is going to start buying wine exclusively in the state liquor stores.

Isn't it ironic that the same people who promised all of us wine connoisseurs cheaper wine are now demanding higher prices than ever before?

To the Montana Beer & Wine Wholesalers, I thank you very much for allowing me to see, through slightly bloodshot eyes, that big profits, and not the ever higher cost of living for us little people, is your only concern. I am thoroughly intoxicated with your compassion. — JERRY STILLINGS, 5100 Warren

WSA03096

TX060_006

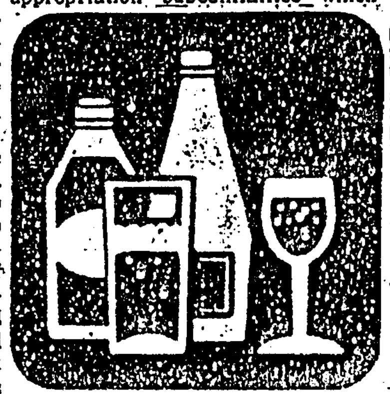
Wine sellers gripe at tactics used by state liquor division

By THOMAS KOTYNSKI
Tribune Capitol Bureau

HELENA — The Montana Beer and Wine Wholesalers Association Thursday charged that the competing state liquor division is not playing fair in its wine pricing practices.

Leon Messerly, administrator of the division, denied the charge and defended the pricing practices as being in the best interests of the consumer and a way to boost state liquor stores sales.

Roger Tippy, lobbyist for the association, asked the Legislature's joint appropriation subcommittee which reviews the division's budget to require a state markup of 50 to 60 percent on all wines.



For years the state has used a three-tiered markup ranging from 40 to 82 percent, depending on the quality of the wine, established by the old liquor control board.

"Pop" wines which cost under $8 a case at the winery were marked up 82 percent; wines costing $8 to $18 a case, 60 percent, and wines over $18 at 40 percent.

In comparison, Tippy said distributors mark their products up 25 percent, and the retailer marks the product up again 25 to 30 percent, bringing the total markup to over 50 percent.

There has been a dual wine system since the 1979 Legislature amended the wine initiative to allow the state to stay in the wine business. The state buys wine for its liquor stores directly from the winery and the private sector is supplied mostly by distributors who also buy directly from the winery and sell to retailers like grocery stores.

Tippy said between competition and double digit inflation, the state markup system is now in shambles.

He said the state has just about abandoned the pop wine trade to the private sector because its price, with an 82 percent markup is much higher than grocery store prices.

Further up the ladder, he said, winery price increases are bumping more and more premium American wines over $18 a case, resulting in the state actually cutting the price, because those wines move from the 60 per cent to 40 percent markup category.

He said that any suggestions that the three tiers be adjusted for inflation are rebuffed by the state.

Tippy noted, however, that the state officials are free in making exceptions to the markup rule when it suits them.

He said the division purchased a container load of Riunite Lambrusco wines directly from the producer in Italy and marked it up just 20 percent during the peak sales month of November.

"Wholesalers cannot believe this kind of markup can cover all handling and overhead costs other than shipping in and out," he said.

He called the state's wine markup policies "arbitrary, and capricious, and at times predatory," in asking for a standard markup of between 50 and 60 percent until the state formulates a rational markup policy.

He said the state has a further advantage over the distributors in that it can get discounts from the wineries because it is able to order in large lots.

Messerly said the Riunite Lambrusco was bought at such a discount and put on sale as a "loss leader" to get people into the state liquor stores to buy other liquors.

He said the consumer benefitted from the sale, and the foot traffic increased in the state stores, helping the state reach its profit level mandated by the Legislature.

Messerly said the state actually made a profit, even with the 20 percent markup.

The subcommittee took no action on Tippy's request.

WSA03097

TX060_007

Great Falls Tribune 2-8-81

rowning our liquor control sorrows

is a pitiful story.

, pity the poor state liquor division. ent and did the job the 1979 Legisla- gave it the power to do. It returned a it, and apparently one even greater the Legislature mandated.

what kind of reward awaits the liq- division? Some people say this legis- e session would like to tie its hands n.

years ago, the state went through a es of fundamental changes in liquor s policy. They began when voters ap- ed an initiative in the 1978 election to grocery and drug stores to sell

initiative also took wine sales out of liquor stores. The Legislature voted llow the state stores to keep selling ; and it changed the way the liquor sion could operate.

liquor division was given an open- d appropriation with the order to ize $13 million in profit to be re- ed to the state treasury. Last week, liquor division administrator told the t Appropriations Subcommittee that $13 million and perhaps $400,000 more ld be returned.

Why? Because the Legislature's mandate gave the liquor division a freer hand to operate with an eye on profits instead of politics. Unprofitable stores were closed, others were opened. Store hours became more flexible. Personal checks were accepted.

The state liquor division was allowed to compete for customers, and it appears to have done well. For that, the legislative fiscal analyst wants to set a liquor division budget and a profit based on certain employee numbers.

Now comes Chapter 2 in our story.

Pity the poor state Beer and Wine Wholesalers Association. Its members don't like the way the state liquor division has been competing.

The association's lobbyist has asked the Joint Appropriations Subcommittee to change the state's price markup system on wines.

The Beer and Wine Wholesalers want the state to be tied to a 50-60 percent markup on all wines. What the state has now is a three-tiered system: the "pop" wines under $8 a case are marked up 82 percent; wines at $8-18 a case, 60 percent; and wines costing more than $18, 40 percent.

The wholesalers association says the state is abandoning the 82-percent markup wines because those prices are much higher than the comparable ones in grocery stores. And with inflation pushing up the prices on the wine bought from the winery, many wines are bumped into the state's $18-and-over price category. That, of course, spells a decline in the state's mark-up to 40 percent, and can mean a competitive edge on sales of those wines.

The markup policies have been described as "arbitrary, and capricious, and at times predatory." In short, that spells "competition." The liquor division can't afford to be too arbitrary if it meets its legislatively set profit level.

As long as the state is going to stay in the liquor business, it ought to be allowed to compete.

If the legislative fiscal analyst and the Montana Beer and Wine Wholesalers get their way, the conclusion to this liquor control tale will be even worse.

For then we'll pity the poor Montana customers. In the past, the state liquor monopoly has done them enough harm. Why clamp down on whatever limited amount of relief the last two years have brought?

WSA03098

TX060_008

'Dillo under wrap bill

A strange twist: liquor division (Montana) now competitive

2-10-81 Helena Independent Record

Two years ago the Legislature decided to let Leon Messerly, head of the state liquor division, run the state's liquor monopoly like an honest-to-goodness business.

Messerly was given a blank check to run his agency as he pleased. The only stipulation was that he return a $13 million profit at the end of the biennium.

AN IR VIEW

Messerly proceeded to institute some cost-cutting measures, such as closing unprofitable stores. He also converted some state liquor stores to agency status — state sanctioned but privately run. To date, Messerly has closed seven stores, converted 33 to agency status and opened three new stores. He also has allowed state stores to accept checks, instituted new hours for some stores and has hired and layed off employees as demand rose and fell.

It appears to have worked.

Last week Messerly told the Legislature's joint appropriations subcommittee that the state liquor monopoly will realize the $13 million profit this biennium. In fact, he said, he might exceed that profit figure by $400,000.

Running the state's liquor division in a businesslike manner seems to have a drawback, at least as far as the Montana Beer and Wine Wholesalers Assocation is concerned.

Roger Tippy, lobbyist for the beer and wine wholesalers, followed up Messerly's report with the charge that the liquor division isn't playing fair in its wine pricing practices.

Tippy asked the subcommittee to require a state markup of 50 to 60 percent on all wines. Currently the state uses a three-tiered markup ranging from 40 percent to 82 percent. But, the state can make exceptions to its markup rule whenever it suits it.

Distributors, on the other hand, mark their products up 25 percent and the retailer takes another 25 to 30 percent markup bringing the total markup to over 50 percent.

What this means, of course, is that the state is giving the wholesalers some pricing competition and they don't like it.

How ironic. When the wine initiative was being debated in 1978, proponents were telling us that wine in the grocery stores would spur competition and result in lower wine prices.

Well, we appear to have the competition and the state is now offering some wines at lower prices. Much to the dismay of the private sector.

We commend the Legislature for ordering the state to run it liquor monopoly like a business. And, as long as the state is in the liquor business, we hope the Legislature will continue to set profit goals and let the division do what it has to to meet those goals.

And we suggest that the private wholesalers stop their whining and compete.

That's what the wine initiative was all about, wasn't it?

WSA03099

TX060_009

Wine bill

HPM 586

AN ACT Relating to the state liquor stores; and amending section CR31B
4, chapter 62, Laws of 1933 ex. sess. as last amended by F
section 10, chapter 172, Laws of 1939 and RCW 66.16.010. H

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON: -1476

Section 1. Section 4, chapter 62, Laws of 1933 ex. sess. ;1
as last amended by section 10, chapter 172, Laws of 1939 and RCW PARTA
66.16.010 are each amended to read as follows: 14

(1) There shall be established at such places throughout 12
the state as the liquor control board, constituted under this 13
title, shall deem advisable, stores to be known as "state liquor 14
stores," for the sale of liquor in accordance with the 14
provisions of this title and the regulations: PROVIDED, That 15
the prices of all liquor shall be fixed by the board from time 16
to time so that the net annual revenue received by the board 17
therefrom shall not exceed thirty-five percent: PROVIDED 19
FURTHER, That in determining the retail price of wine and strong 19
beer, the board shall use a minimum of a seventy-seven percent 20
mark-up on delivered cost, to include the gallonage tax as set 20
by RCW 66.24.210, except in determining the retail price for 21
close-out and discontinued item sales. 21

(2) The liquor control board may, from time to time, fix 22
the special price at which pure ethyl alcohol may be sold to 23
physicians and dentists and institutions regularly conducted as 24
hospitals, for use or consumption only in such hospitals; and 25
may also fix the special price at which pure ethyl alcohol may 26
be sold to schools, colleges and universities within the state 27
for use for scientific purposes. Regularly conducted hospitals 28
may have right to purchase pure ethyl alcohol on a federal 29
permit. 29

(3) The liquor control board may also fix the special price at which pure ethyl alcohol may be sold to any department, branch or institution of the state of Washington, federal government, or to any person engaged in a manufacturing or industrial business or in scientific pursuits requiring alcohol for use therein.

(4) The liquor control board may also fix a special price at which pure ethyl alcohol may be sold to any private individual, and shall make regulations governing such sale of alcohol to private individuals as shall promote, as nearly as may be, the minimum purchase of such alcohol by such persons.

HOUSE OF REPRESENTATIVES

Olympia, Washington

BILL ANALYSIS

BILL NO. HPM 586

Comp. Meas. ____________

Status Revenue Committee

Date March 20, 1981

Staff Contact: Lorentson 3-0514

Committee on Revenue

State liquor store mark-ups
Brief Title

Representative Hastings
Sponsor

BACKGROUND

Consumers can purchase wine from both privately owned retail outlets and liquor stores operated by the State Liquor Control Board. On the average, prices charged by state liquor stores apparently are lower than those of competitors.

Claims have been made that the state maintains a price advantage for the following reasons:

(1) Liquor stores have a distribution cost advantage because the State Liquor Control Board carries out both the wholesaling and retailing functions involved in the distribution of wine from producers to final consumers. In the private sector, these functions generally are handled by different firms.

(2) Pricing policies of the State Liquor Control Board do not provide an appropriate allocation of expenses between wine and other liquor products. Wine prices are not set at high enough levels to cover a fair share of liquor board administrative and marketing expenses.

SUMMARY

HPM 586 has the objective of reducing price advantages state liquor stores have over privately owned firms in the marketing of wine. This objective would be achieved by setting a minimum mark-up over cost which the state would have to use in pricing wine. Pricing guidelines proposed by HPM 586 also would apply to strong beer. The minimum required mark-up would be determined by the following formula:

Minimum Mark-up = 77% of (Delivered cost of product to the state and state gallonage tax)

The choice of the cost base used to determine mark-ups and the 77% factor was based on a study of product pricing in the private sector.

March 17, 1981

PAUL THOMAS WINES

1717 136th Pl. NE Bellevue, Washington 98005 (206) 747-1008

Irv Greengo and Members of the
House Revenue Committee

Dear Members of the Committee:

I would like to comment on the potential impact of raising the state gallonage tax on wine. It is currently 75¢, and I understand raising it to 85¢ is being considered.

First, a word about PAUL THOMAS WINES. We are not quite two years old, one of only about 12 wineries in the state. The winery produces, wholesales, and retails fruit and table wines in Washington and Idaho. Our gross sales are currently running about $275,000, and we are paying over $12,000 in state gallonage taxes annually. Our expenses continue to exceed our revenues. We are still struggling for the beakeven point.

The most important points I can make concerning the proposal are these:

1. Taxes are a major operating expense for a small winery. On a list of 25 expenses, the <u>state gallonage tax ALONE</u> ranks number five in its impact. The mortality rate among wineries is wel known. I know of two in the last year in this state. Our own survival continues to be precarious, and this tax at its current rate is already excessive.
2. Enough is enough. If we were a winery in California and paying their gallonage tax, our annual tax bill would be $300, not $12,000, as it currently is based on wine sales. If Washington wants small business to survive, and, in particular, this winery, it must help small business in its infancy, not punish it. If anything, the tax should be significantly reduced to encourage the industry.
3. In my opinion it is erroneous to think that this tax is passed onto the consumer. It is more correct to consider the tax a major cost of doing business, that is, running a winery in this state. That is the way we look at it, and we are very unhappy.

I would gladly appear before your committee to respond to your questions, but this Thursday is very untimely. We only have two full-time employees, and we are currently undergoing a federal audit and bottling 4,000 bottles of a new wine on Thursday.

Please keep me informed of any subsequent hearings on the subject.

Respectfully,

Paul Thomas

Paul F. Thomas, III

Bill Burkett

STATE OF WASHINGTON

Dixy Lee Ray
Governor

WASHINGTON STATE LIQUOR CONTROL BOARD
Olympia, Washington 98504

~~WINE~~
Regular
Price
Increases

August 25, 1980

S&A

Mr. William A. Johanson
6733 - 39th Avenue S.W.
Seattle, Washington 98136

Dear Mr. Johanson:

As I explained in my letter of July 29, 1980, the item you mentioned probably was increased in price because the winery increased its price to the Liquor Control Board.

The State of Washington, or the Liquor Control Board, does not reap a monetary gain, however, because it adheres to the following procedure:

1. When a winery increases its price, the board takes cognizance of the inventory of that item on hand, throughout the state system, at the time of the price increase.

2. When the quantity of the item noted by the inventory in 1., above, is sold, statewide, the price of the item is raised, statewide, to reflect the price increase imposed by the winery.

Thus the quantity of merchandise on hand, statewide, at the old, lower purchase price, is sold at the old, lower, retail price. Customers statewide reap the benefit of being able to buy the item at the old, lower, retail price until the quantity on hand at the time of the price increase is exhausted.

But, since some stores sell a given item more slowly than other stores, you can see that there will be some bottles marked at the old retail price which will be left over when the increased price goes into effect. They are remarked to reflect the new price imposed by the winery. But every such bottle that was marked up in this manner has been offset somewhere in the statewide system by a bottle that was purchased at the higher price but was sold at the old, lower price.

Thus it is possible that the bottle you bought was purchased by the Liquor Control Board at the new higher price, but was marked at the old, lower price until such time as the quantity of the item on hand at the time of the price increase was exhausted, statewide. Then the increased price went into effect and the bottle was remarked.

If I can be of any further assistance in this matter, please let me know.

Sincerely,

Leroy M. Hittle

Leroy M. Hittle
Board Member

LMH:mp

bc: Pedersen
Watanabe
King
Burkett ✓
Hanson

WSA03104

TX060_014

6733 - 39th Avenue S.W.
Seattle, Washington 98136
August 7, 1980

Washington State Liquor Control Board
Olympia, Washington 98504

Attention: Mr. Leroy M. Hittle
Board Member

Dear Mr. Hittle:

You seem to have missed my point, I am not complaining about the markup.

My complaint simply is why should a wine be clearly stamped \$3.40 then over this stamp another placed, marked \$3.75.

If the wine \$3.40 is properly marked 45.9% above delivery to the Board, roughly that is 10% when it is \$3.75, thus resulting in a 55.9% markup.

Most stores sell the remaining stock on their shelves at the stamped price, then restocking with the higher price.

\$3.40 and \$3.75 for the same wine is not in my mind exactly cricket for the Liquor Control Board.

If the wine is 45.9% marked up correct, why is it marked up 55.9%.

Your remark, what brand, is superfluous, it matters not what brand, it matters the policy marking over the properly marked bottle. How much extra money you have improperly made with this method.

I still have the tags.

Very truly yours,

William A. Johanson

William A. Johanson